

IT 24-0010-GIL 11/6/2024 MODIFICATIONS – BONUS DEPRECIATION

General explanation of bonus depreciation modifications for passenger automobiles subject to IRC Section 280F limits. (This is a GIL.)

November 6, 2024

NAME
ADDRESS

Re: Illinois income tax – Form IL-4562 and Automobiles Subject to IRC 280F Limitation

Dear NAME:

This is in response to your letter received by the Department on September 30, 2024, in which you request information regarding automobiles subject to the IRC Section 280F limitation and the related Illinois bonus depreciation adjustments on Form IL-4562. The nature of your request and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy, and is not binding on the Department. See 2 Ill. Adm. Code Section 1200.120(b) and (c), which may be found on the Department’s website at <https://tax.illinois.gov>.

Your letter states as follows:

I have a question regarding the IL-4562 and autos subject to 280F limitations.

Could you please confirm if the following example is correct?

An auto placed in service in 2023 - MACRS Calc, Half Year Convention, cost of 100,000.

		Federal			280F	Fed Claimed	
	Basis		Rmlife	Bonus			
2023	100000	0.2	5.00	80000	0	20200	20200
2024	79800	40%	4.50	0	31920	19500	19500
2025	60300		3.50		24120	11700	11700
2026	48600		2.50		19440	6960	6960
2027	41640		1.50		16656	6960	6960
2028	34680		0.50			6960	6960
2029	27720		1.00			6960	6960
2030	20760		1.00			6960	6960
2031	13800		1.00			6960	6960
2032	6840						<u>6840</u>

100000

Illinois Adjustments Addback

Net	Fed	Addback	Subtraction (*4)	Final Yr
Adjustments	Claimed			Subtraction
2023	20200	-20200	0	-20200
2024	19500		78000	78000
2025	11700		46800	46800
2026	6960		27840	27840
2027	6960		27840	27840
2028	6960		27840	27840
2029	6960		27840	27840
2030	6960		27840	27840
2031	6960		27840	27840
2032	6840	-319200	<u>27360</u>	20200
			<u>319200</u>	<u>-271640</u>
				<u>0</u>

If this is not correct, could you please direct me where I erred?

Thank you so much for your time!

RULING

Section 280F(a) of the Internal Revenue Code (“IRC”) limits the dollar amount of the depreciation deduction for the year a taxpayer places a passenger automobile in service and for each succeeding year. As provided in IRC Section 280F(d)(7)(A), for any passenger automobile placed in service after 2018, the Internal Revenue Service (“IRS”) increases the allowable depreciation deduction amounts by the automobile price inflation adjustment amount. Rev. Proc. 2023-14, 2023-6 IRB 466, February 6, 2023, provides the IRC Section 280F limits for passenger automobiles placed in service by the taxpayer during calendar year 2023.

For qualified property, IRC Section 168(k)(1) provides the depreciation deduction provided by IRC Section 167(a) for the taxable year in which such property is placed in service includes an allowance equal to the “applicable percentage” of the adjusted basis of the qualified property. Pursuant to IRC Section 168(k)(6)(A)(ii), the applicable percentage for qualified property acquired after September 27, 2017, and placed in service after December 31, 2022, and before January 1, 2024, is 80 percent.

In many cases, this additional first year depreciation deduction provided by IRC Section 168(k), commonly referred to as bonus depreciation, will be greater than the yearly IRC

Section 280F limits. In those cases, during the first year the property was acquired and placed in service and in years in which bonus depreciation is allowed federally, a taxpayer is allowed bonus depreciation equal to the limit and regular depreciation of zero.

Section 203(b)(2)(E-10) of the Illinois Income Tax Act ("IITA"; 35 ILCS 5/203) requires a corporation, including a Subchapter S corporation, to add back to their federal taxable income:

For taxable years 2001 and thereafter, an amount equal to the bonus depreciation deduction taken on the taxpayer's federal income tax return for the taxable year under subsection (k) of Section 168 of the Internal Revenue Code.

A corporation, including a Subchapter S corporation, is permitted a subtraction modification of the percentage of regular depreciation on that asset in both the year the taxpayer claimed the bonus depreciation and in subsequent years, as provided in IITA Section 203(b)(2)(T):

For taxable years 2001 and thereafter, for the taxable year in which the bonus depreciation deduction is taken on the taxpayer's federal income tax return under subsection (k) of Section 168 of the Internal Revenue Code and for each applicable taxable year thereafter, an amount equal to "x", where:

(1) "y" equals the amount of the depreciation deduction taken for the taxable year on the taxpayer's federal income tax return on property for which the bonus depreciation deduction was taken in any year under subsection (k) of Section 168 of the Internal Revenue Code, but not including the bonus depreciation deduction;

(2) for taxable years ending on or before December 31, 2005, "x" equals "y" multiplied by 30 and then divided by 70 (or "y" multiplied by 0.429); and

(3) for taxable years ending after December 31, 2005:

(i) for property on which a bonus depreciation deduction of 30% of the adjusted basis was taken, "x" equals "y" multiplied by 30 and then divided by 70 (or "y" multiplied by 0.429);

(ii) for property on which a bonus depreciation deduction of 50% of the adjusted basis was taken, "x" equals "y" multiplied by 1.0;

(iii) for property on which a bonus depreciation deduction of 100% of the adjusted basis was taken in a taxable year ending on or after December 31, 2021, "x" equals the depreciation deduction that would be allowed on that property if the taxpayer had made the

election under Section 168(k)(7) of the Internal Revenue Code to not claim bonus depreciation on that property; and

(iv) for property on which a bonus depreciation deduction of a percentage other than 30%, 50% or 100% of the adjusted basis was taken in a taxable year ending on or after December 31, 2021, “x” equals “y” multiplied by 100 times the percentage bonus depreciation on the property (that is, $100(\text{bonus}\%)$) and then divided by 100 times 1 minus the percentage bonus depreciation on the property (that is, $100(1-\text{bonus}\%)$).

The aggregate amount deducted pursuant to IITA Section 203(b)(2)(T) in all taxable years for any one piece of property may not exceed the amount of the bonus depreciation deduction taken on that property on the taxpayer’s federal income tax return.

If a taxpayer sells, transfers, abandons, or otherwise disposes of property for which the taxpayer was required in any taxable year to make an addition modification under IITA Section 203(b)(2)(E-10), then IITA Section 203(b)(2)(E-11) requires a corporation, including a Subchapter S corporation, to add back to their federal taxable income an amount equal to the aggregate amount of all deductions taken in all taxable years under IITA Section 203(b)(2)(T).

Substantially identical provisions are included in IITA Section 203 for individuals, trusts and estates, and partnerships.

The example you provided is for an automobile placed in service in 2023, which would be subject to a federal bonus depreciation applicable percentage of 80% and IRC Section 280F limits as provided in Table 1 of Rev. Proc. 2023-14. You indicate the example applies MACRS calculation with a half-year convention. The example appears to calculate the depreciation deduction without using the percentage tables in IRS Publication 946, but rather applies the declining balance method and half-year convention. An 80% federal bonus depreciation was claimed, and the amount exceeded the IRC Section 280F limit of \$20,200, so no Illinois subtraction modification is allowed for the 2023 tax year. Applying the formula in IITA Section 203(b)(2)(T)(3)(iv), the subtraction modification for succeeding years would be equal to the federal depreciation deduction multiplied by $4 [((100)(.80)) / (100(1-.80))]$.

Pursuant to IITA Section 203(b)(2)(E-10), the addition modification for the 2023 tax year for a corporation would be equal to the federal bonus depreciation deduction taken on the taxpayer’s federal income tax return. Therefore, the taxpayer must recognize a \$20,200 addition modification equal to the IRC Section 280F limit for the 2023 tax year. Pursuant to IITA Section 203(b)(2)(E-11), the addition modification for the last year of regular depreciation would equal the total amount of all Illinois depreciation subtractions claimed in all taxable years.

Form IL-4562, Special Depreciation, and the related instructions provide specific guidance for taxpayers who file an Illinois income or replacement tax return and report special depreciation on their federal Form 4562. In addition, the Form IL-4562 instructions include a special note on how to compute Illinois bonus depreciation for passenger automobiles subject to the IRC Section 280F limits. Previous years forms and instructions are currently available on the Department's website, and the 2024 version will be publicly available on the website in early 2025.

As stated above, this is a General Information Letter. A General Information Letter does not constitute a statement of policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department.

I hope this information is helpful. If you require additional information, please visit our website at <https://tax.illinois.gov> or contact the Department's Taxpayer Assistance Division at (217) 782-3336.

Sincerely,

Jennifer Uhles
Associate Counsel (Income Tax)